

POCAHONTAS COMMUNITY HOSPITAL

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2011 AND 2010

POCAHONTAS COMMUNITY HOSPITAL

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POCAHONTAS COMMUNITY HOSPITAL
Officials
June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
CITY COUNCIL		
Brian Blomker	Mayor	December, 2011
Gus Holzmueller	Member	December, 2011
Brian Stover	Member	December, 2011
John DeWall	Member	December, 2013
Jeff Nielsen	Member	December, 2011
Rod Stoulil	Member	December, 2013
Jeffrey A. Johnson	City Treasurer	Appointed Annually

HOSPITAL BOARD OF TRUSTEES

Rick Winegarden	President	December, 2011
Bev Holzmueller	Vice-President	December, 2013
Duane Wiemers	Secretary-Treasurer	December, 2013
Don Beneke	Member	December, 2011
Cheryl Smith	Member	December, 2011

HOSPITAL OFFICIALS

James Roetman	Chief Executive Officer
Lynne Raveling	Chief Financial Officer
Erin Peterson	Director of Patient Care
Susie Aden	Director of Outpatient Services

Gronewold, Bell, Kyhnn & Co. P.C.

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DAVID L. HANNASCH
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DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pocahontas Community Hospital
Pocahontas, Iowa

We have audited the accompanying consolidated balance sheets of Pocahontas Community Hospital as of June 30, 2011 and 2010, and the related consolidated statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pocahontas Community Hospital as of June 30, 2011 and 2010, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 12, 2011 on our consideration of Pocahontas Community Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

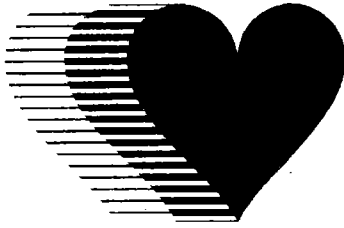
The management's discussion and analysis on pages 4 through 4d and the budgetary comparison schedule on page 19 are not a required part of the basic consolidated financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Pocahontas Community Hospital

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the consolidated financial statements for the three years ended June 30, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information (shown on pages 20 through 32) is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Gronewold, Bell, Kyhuan + Co. P.C.

Atlantic, Iowa
August 12, 2011



Pocahontas Community Hospital

Pocahontas Community Hospital Management's Discussion and Analysis

Our discussion and analysis of Pocahontas Community Hospital's (Hospital) financial performance provides an overview of the Hospital's and Pocahontas Community Healthcare Foundation's (a blended component unit) financial activity for the fiscal years ended June 30, 2011, 2010, and 2009. Please read it in conjunction with the Hospital's financial statements.

FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in each of the past two years with a \$513,870 or 6.7% increase in 2011 and a \$434,321 or 6.0% increase in 2010.

The Hospital reported operating income of \$355,775 in 2011 and an operating income of \$243,905 in 2010.

Nonoperating revenues, net increased by \$36,095 in 2011 as a result of a \$13,739 increase in gifts and grants and a \$19,191 decrease in interest expense. The nonoperating revenues, net decreased by \$17,672 or 15.6% in 2010.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's net assets - the difference between assets and liabilities - are one way to measure the Hospital's financial health, or financial position. Other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors need to be considered in assessing the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5 as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 2,813,817	\$ 3,476,499	\$ 2,164,133
Capital assets, net	6,115,539	6,236,041	6,355,746
Other assets, net	<u>843,229</u>	<u>567,908</u>	<u>736,581</u>
Total assets	<u>\$ 9,772,585</u>	<u>\$ 10,280,448</u>	<u>\$ 9,256,460</u>
Liabilities:			
Long-term debt, less current maturities	\$ 430,172	\$ 849,489	\$ 1,197,903
Other current and noncurrent liabilities	<u>1,109,312</u>	<u>1,711,728</u>	<u>773,647</u>
Total liabilities	<u>\$ 1,539,484</u>	<u>\$ 2,561,217</u>	<u>\$ 1,971,550</u>
Net Assets:			
Invested in capital assets	\$ 5,320,466	\$ 4,799,889	\$ 4,824,022
Restricted expendable assets	112,242	93,588	93,336
Unrestricted	<u>2,800,393</u>	<u>2,825,754</u>	<u>2,367,552</u>
Total net assets	<u>\$ 8,233,101</u>	<u>\$ 7,719,231</u>	<u>\$ 7,284,910</u>

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2011, the Hospital's net assets increased by \$513,870 or 6.7%, as shown in Table 2. This compares with the 6.0% increase in net assets of \$434,321 for 2010.

Net patient service revenue increased \$892,079 or 11.5% in 2011 (\$584,604 or 8.1% in 2010).

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

Table 2: Operating Results and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues:			
Net patient service revenues	\$ 8,671,220	\$ 7,779,141	\$ 7,194,537
Other operating revenues	<u>107,048</u>	<u>95,066</u>	<u>84,079</u>
Total operating revenues	8,778,268	7,874,207	7,278,616
Operating Expenses:			
Nursing service	2,343,415	2,130,552	1,988,971
Other professional service	2,930,808	2,632,910	2,513,170
General Service	700,962	623,384	597,687
Fiscal and administrative service	1,835,542	1,629,939	1,462,316
Provision for depreciation	<u>611,766</u>	<u>613,517</u>	<u>630,306</u>
Total operating expenses	8,422,493	7,630,302	7,192,450
Operating income	355,775	243,905	86,166
Nonoperating Revenues and Expenses:			
Noncapital gifts, grants and bequests	156,133	142,394	163,598
Investment income	17,584	23,390	31,371
Ambulance subsidy	7,202	6,745	6,274
Interest expense	(52,125)	(71,316)	(87,687)
Clinic operations, net	(2,769)	(429)	(300)
Gain (loss) on disposal of equipment	<u>5,654</u>	<u>(5,200)</u>	<u>--</u>
Non-operating revenues, net	131,679	95,584	113,256
Excess of Revenues Over Expenses			
Before Capital Grants and Contributions	487,454	339,489	199,422
Capital Grants and Contributions	<u>26,416</u>	<u>94,832</u>	<u>14,456</u>
Increase in Net Assets	513,870	434,321	213,878
Net Assets Beginning of Year	<u>7,719,231</u>	<u>7,284,910</u>	<u>7,071,032</u>
Net Assets End of Year	<u>\$ 8,233,101</u>	<u>\$ 7,719,231</u>	<u>\$ 7,284,910</u>

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

OPERATING INCOME

The first component of the overall change in the Hospital's net assets is its operating income, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. Operating income increased from an income of \$243,905 in 2010 to income of \$355,775 in 2011.

The primary component of this increase in operating income is:

The increase in patient volumes resulting in a 14.2% increase in gross patient service revenue. Gross patient service revenue was \$11,441,105 in 2011 compared to \$10,017,431 in 2010.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of contributions, interest revenue and investment earnings and a county subsidy for providing ambulance services. Interest revenue decreased from \$23,390 in 2010 to \$17,584 in 2011. This decrease is the result of declining interest rates received on investments over the past year.

GRANTS AND CONTRIBUTIONS

The Hospital received \$23,921 in grant funds through the SHIP, FLEX and HRSA grant programs in 2011.

The Pocahontas Community Hospital Healthcare Foundation was formed for the purpose of raising funds for the benefit of the Hospital. The Foundation completed a capital campaign to raise money for the recent building project at the Hospital. The Foundation is also the conduit for the funds from the annual Hospice fund drive.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating revenues and nonoperating revenues and expenses as discussed earlier.

BUDGETARY HIGHLIGHTS

The official budget of the Hospital for the year ended June 30, 2011 was prepared on an accrual basis. Actual expenditures were lower than the budget by \$1,250,228 due to lower than expected supply costs in some departments, and less depreciation cost than expected.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2010, the Hospital had \$4,799,889 invested in capital assets, net of accumulated depreciation and related debt. In 2011, the Hospital purchased new equipment costing \$505,610. The Hospital had \$5,320,466 invested in capital assets net of accumulated depreciation and related debt at the end of 2011.

Debt:

At year-end, the Hospital had \$795,073 in debt outstanding. The original debt included a \$2,000,000 promissory note signed by the City of Pocahontas on behalf of the Hospital for financing the current building project, and a \$360,000 non-interest bearing note with the City of Pocahontas for distribution of the proceeds of a city awarded USDA Grant. The proceeds of this note were used for the purchase of several pieces of equipment.

OTHER ECONOMIC FACTORS

The continued declining employment in the county related to the economic downturn has resulted in residents losing jobs or having a reduction in paid hours and as a result losing insurance coverage. This situation has resulted in a 44% increase in bad debts in 2011, as patients are no longer able to pay their premiums or medical bills and cannot go without medical care. Many of these patients, because they are still employed or working aged may not qualify for government assistance, but do qualify for some hospital sponsored financial assistance because of the low income levels.

Another wind energy project is currently under construction in the county and has positively impacted the hospital through pre-employment testing services.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Pocahontas Community Hospital, 606 NW 7th St., Pocahontas, Iowa 50574.

POCAHONTAS COMMUNITY HOSPITAL
Consolidated Balance Sheets
June 30,

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash	\$ 914,175	\$ 1,500,591
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$612,000 in 2011, \$440,000 in 2010)	1,278,709	1,172,387
Other receivables	21,986	23,318
Inventory	127,991	109,034
Prepaid expense	103,515	84,506
Internally designated assets	<u>367,441</u>	<u>586,663</u>
Total current assets	2,813,817	3,476,499
Designated and Restricted Assets:		
Internally designated assets	1,041,642	976,588
Restricted assets	<u>112,242</u>	<u>93,588</u>
	1,153,884	1,070,176
Less amounts required to meet current liabilities	<u>367,441</u>	<u>586,663</u>
	786,443	483,513
Capital Assets:		
Depreciable capital assets, net	6,103,039	6,223,541
Non-depreciable capital assets	<u>12,500</u>	<u>12,500</u>
	6,115,539	6,236,041
Other Assets	<u>56,786</u>	<u>84,395</u>
Total assets	<u>\$ 9,772,585</u>	<u>\$ 10,280,448</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 364,901	\$ 348,963
Accounts payable	192,439	449,798
Accrued employee compensation	241,902	216,677
Other accrued expenses	36,530	32,230
Accrued interest	2,540	4,060
Estimated third-party payor settlements	271,000	660,000
Total current liabilities	<u>1,109,312</u>	<u>1,711,728</u>
Long-Term Debt, less current maturities	<u>430,172</u>	<u>849,489</u>
Total liabilities	<u>1,539,484</u>	<u>2,561,217</u>
Net Assets:		
Invested in capital assets, net of related debt	5,320,466	4,799,889
Restricted - expendable	112,242	93,588
Unrestricted	<u>2,800,393</u>	<u>2,825,754</u>
	<u>8,233,101</u>	<u>7,719,231</u>
 Total liabilities and net assets	 <u>\$ 9,772,585</u>	 <u>\$ 10,280,448</u>

POCAHONTAS COMMUNITY HOSPITAL
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Revenue:		
Net patient service revenue	\$ 8,671,220	\$ 7,779,141
Other revenue	<u>107,048</u>	<u>95,066</u>
Total revenue	8,778,268	7,874,207
Expenses:		
Nursing service	2,343,415	2,130,552
Other professional service	2,930,808	2,632,910
General service	700,962	623,384
Fiscal and administrative service	1,835,542	1,629,939
Provision for depreciation	<u>611,766</u>	<u>613,517</u>
Total expenses	<u>8,422,493</u>	<u>7,630,302</u>
Operating Income	355,775	243,905
Non-Operating Revenues (Expenses):		
Noncapital gifts, grants and bequests	156,133	142,394
Investment income	17,584	23,390
Ambulance subsidy	7,202	6,745
Interest expense	(52,125)	(71,316)
Clinic operations, net	(2,769)	(429)
Gain (loss) on disposal of equipment	<u>5,654</u>	<u>(5,200)</u>
Non-operating revenues, net	<u>131,679</u>	<u>95,584</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	487,454	339,489
Restricted Revenue:		
Capital grants and contributions	<u>26,416</u>	<u>94,832</u>
Increase in Net Assets	513,870	434,321
Net Assets Beginning of Year	<u>7,719,231</u>	<u>7,284,910</u>
Net Assets End of Year	<u>\$ 8,233,101</u>	<u>\$ 7,719,231</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL
Consolidated Statements of Cash Flows
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 8,177,230	\$ 8,132,442
Cash paid to suppliers	(4,913,364)	(4,308,891)
Cash paid to employees	(2,859,963)	(2,655,070)
Other operating revenue	<u>107,048</u>	<u>95,066</u>
Net cash provided by operating activities	510,951	1,263,547
Cash flows from non-capital financing activities:		
Gifts, grants and bequests	143,983	127,544
Ambulance subsidy	<u>7,202</u>	<u>6,745</u>
Net cash provided by non-capital financing activities	151,185	134,289
Cash flows from capital and related financing activities:		
Capital expenditures	(743,310)	(262,397)
Proceeds from disposal of assets	20,000	1,085
Capital grants and contributions	26,416	94,832
Principal paid on long-term debt	(403,379)	(333,272)
Interest paid	<u>(41,495)</u>	<u>(58,036)</u>
Net cash used in capital and related financing activities	(1,141,768)	(557,788)
Cash flows from investing activities:		
Change in designated and restricted assets	(83,065)	(55,018)
Investment income	17,584	23,390
Clinic operations, net	(2,769)	(429)
Other asset changes	<u>(37,891)</u>	<u>450</u>
Net cash used in investing activities	(106,141)	(31,607)
Net increase (decrease) in cash and cash equivalents	(585,773)	808,441
Cash and cash equivalents beginning of year	<u>1,685,233</u>	<u>876,792</u>
Cash and cash equivalents end of year	<u>\$ 1,099,460</u>	<u>\$ 1,685,233</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 914,175	\$ 1,500,591
Cash and cash equivalents in designated and restricted assets	<u>185,285</u>	<u>184,642</u>
Total cash and cash equivalents	<u>\$ 1,099,460</u>	<u>\$ 1,685,233</u>

(continued next page)

POCAHONTAS COMMUNITY HOSPITAL
Consolidated Statements of Cash Flows - Continued
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 355,775	\$ 243,905
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	611,766	613,517
Amortization	47,559	32,243
Change in assets and liabilities		
Accounts receivable	(104,990)	(286,699)
Inventory	(18,957)	(6,395)
Prepaid expense	(19,009)	5,167
Accounts payable - trade	(1,718)	(15,131)
Accrued employee compensation	25,225	30,754
Other accrued expenses	4,300	6,186
Estimated third-party payor settlements	(389,000)	640,000
Total adjustments	<u>155,176</u>	<u>1,019,642</u>
Net cash provided by operating activities	<u>\$ 510,951</u>	<u>\$ 1,263,547</u>

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating income to net cash provided by operating activities:

	<u>2011</u>	<u>2010</u>
Interest imputed on loan and recorded as a gift	<u>\$ 12,150</u>	<u>\$ 14,850</u>
Net book value of asset traded	<u>\$ --</u>	<u>\$ 32,866</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization includes a hospital foundation and a 25 bed critical access acute care municipal hospital with related healthcare ancillary and outpatient services. Pocahontas Community Hospital (Hospital) is organized under Chapter 392 of the Code of Iowa; accordingly, it is a political subdivision of the State of Iowa and is therefore exempt from federal and state income taxes. It is governed by a five member board of trustees, elected for four year terms. In addition, the City Treasurer is considered to be a Co-Treasurer of the Board. The Hospital, a component unit of the City of Pocahontas, has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Pocahontas Community Healthcare Foundation (Foundation) has been identified as a component unit of the Hospital, and accordingly, the assets, liabilities, and activities of the Foundation have been consolidated with those of the Hospital in their financial statements. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. It was established to provide financial support to the Hospital.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement No. 20, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the FASB, including those issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less including designated and restricted assets.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest costs in 2011 or 2010.

9. Compensated Absences

Hospital employees earn vacation days at varying rates depending on years of service. Vacation time accumulates to a maximum of 200 hours. Any excess over 200 hours accumulated by the employee's anniversary date is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if employment is ended.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

13. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

14. Net Assets

Net assets of the Hospital are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

15. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2009. The Medicaid cost reports have been finalized through June 30, 2008. However, finalized cost reports are subject to re-opening by the intermediary within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Capital items	\$ 18,598	\$ 3,478
Hospice services	28,411	15,746
Cardiac rehab	1,030	1,030
Scholarships	1,500	3,000
Physician recruitment	9,317	13,056
Foundation discretionary	<u>53,386</u>	<u>57,278</u>
Total restricted expendable net assets	<u>\$ 112,242</u>	<u>\$ 93,588</u>

Restricted nonexpendable net assets represent the principal amounts of permanent endowments, restricted to investment in perpetuity. The Hospital had no permanent endowments as of June 30, 2011 and 2010.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

NOTE D - DONOR RESTRICTIONS RELEASED

Restricted assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>2011</u>	<u>2010</u>
Purpose of Restrictions Accomplished:		
Capital items	\$ 31,590	\$ 23,829
Hospice costs	25,114	40,847
Ambulance	6,240	5,708
Other Foundation projects	<u>62,369</u>	<u>31,785</u>
	<u>\$ 125,313</u>	<u>\$ 102,169</u>

NOTE E - DESIGNATED NET ASSETS

Of the \$2,800,393 (\$2,825,754 as of June 30, 2010) of unrestricted net assets as of June 30, 2011, \$1,041,642 (\$976,588 for 2010) has been designated by the Hospital's Board of Trustees for capital acquisitions, debt principal payments, and endowments. These assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

NOTE F - DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

NOTE F - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	<u>2011</u>	<u>2010</u>
Internally Designated Assets:		
Capital Improvements and Debt Payments:		
Cash and cash equivalents	\$ 119,378	\$ 136,804
Certificates of deposit	543,256	437,433
Interest receivable	2,241	2,351
Due to City	(23,233)	--
Hospital designated endowments:		
Certificates of deposit	<u>400,000</u>	<u>400,000</u>
	<u>\$ 1,041,642</u>	<u>\$ 976,588</u>
Restricted Assets:		
Cash	\$ 65,907	\$ 47,838
Certificate of deposit	<u>46,335</u>	<u>45,750</u>
	<u>\$ 112,242</u>	<u>\$ 93,588</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2011 and 2010, was as follows:

	<u>2011</u>	<u>2010</u>
Receivable From:		
Patients	\$ 480,867	\$ 441,459
Medicare	694,376	680,070
Medicaid	128,817	97,039
Blue Cross	385,321	245,163
Workers Compensation	25,945	22,868
Others	<u>175,383</u>	<u>125,788</u>
	1,890,709	1,612,387
Less allowances for doubtful accounts and contractual adjustments	<u>612,000</u>	<u>440,000</u>
	<u>\$ 1,278,709</u>	<u>\$ 1,172,387</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2011 and 2010 were as follows:

<u>Cost</u>	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
Land Improvements	\$ 154,540	\$ --	\$ --	\$ 154,540
Buildings	8,041,527	--	4,447	8,037,080
Fixed Equipment	655,271	99,070	51,320	703,021
Major Movable Equipment	<u>2,887,950</u>	<u>406,540</u>	<u>245,475</u>	<u>3,049,015</u>
	11,739,288	505,610	301,242	11,943,656
<u>Depreciation</u>				
Land Improvements	130,799	5,847	--	136,646
Buildings	2,968,453	264,197	4,447	3,228,203
Fixed Equipment	352,372	43,239	49,834	345,777
Major Movable Equipment	<u>2,064,123</u>	<u>298,483</u>	<u>232,615</u>	<u>2,129,991</u>
Total Depreciation	<u>5,515,747</u>	<u>611,766</u>	<u>286,896</u>	<u>5,840,617</u>
Depreciable Capital Assets, Net	<u>\$ 6,223,541</u>	<u>\$(106,156)</u>	<u>\$ 14,346</u>	<u>\$ 6,103,039</u>
Land	<u>\$ 12,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 12,500</u>
<u>Cost</u>	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
Land Improvements	\$ 154,540	\$ --	\$ --	\$ 154,540
Buildings	8,026,327	15,200	--	8,041,527
Fixed Equipment	626,476	28,795	--	655,271
Major Movable Equipment	<u>2,614,489</u>	<u>488,968</u>	<u>215,507</u>	<u>2,887,950</u>
	11,421,832	532,963	215,507	11,739,288
<u>Depreciation</u>				
Land Improvements	124,947	5,852	--	130,799
Buildings	2,621,720	346,733	--	2,968,453
Fixed Equipment	312,891	39,481	--	352,372
Major Movable Equipment	<u>2,019,028</u>	<u>221,451</u>	<u>176,356</u>	<u>2,064,123</u>
Total Depreciation	<u>5,078,586</u>	<u>613,517</u>	<u>176,356</u>	<u>5,515,747</u>
Depreciable Capital Assets, Net	<u>\$ 6,343,246</u>	<u>\$(80,554)</u>	<u>\$ 39,151</u>	<u>\$ 6,223,541</u>
Land	<u>\$ 12,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 12,500</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

NOTE I - NON-CURRENT LIABILITIES

A schedule of non-current liabilities for the years ended June 30, 2011 and 2010 follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2011</u>	<u>Current Portion</u>
Note A	\$ 941,309	\$ --	\$ 351,950	\$ 589,359	\$ 313,472
Note B	<u>257,143</u>	<u>--</u>	<u>51,429</u>	<u>205,714</u>	<u>51,429</u>
	<u>\$1,198,452</u>	<u>\$ --</u>	<u>\$ 403,379</u>	<u>\$ 795,073</u>	<u>\$ 364,901</u>
	<u>Balance 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2010</u>	<u>Current Portion</u>
Note A	\$1,223,153	\$ --	\$ 281,844	\$ 941,309	\$ 297,534
Note B	<u>308,571</u>	<u>--</u>	<u>51,428</u>	<u>257,143</u>	<u>51,429</u>
	<u>\$1,531,724</u>	<u>\$ --</u>	<u>\$ 333,272</u>	<u>\$1,198,452</u>	<u>\$ 348,963</u>

Note A - The note is in the name of the City of Pocahontas through Citizens State Bank, Pocahontas Office. However, the Hospital is responsible for all loan principal and interest payments, therefore, the note payable has been recorded as a liability of the Hospital. Combined monthly principal and interest payments, required in the loan agreement, are \$28,323 and the interest rate is 5.25%. The final payment is scheduled to be paid in June, 2013, however, the Hospital has voluntarily begun to pay \$35,000 monthly, which will result in an earlier completion date. The Hospital has pledged all of its assets and future revenues (net of certain expenses) to repay the note.

Note B - The City of Pocahontas obtained a \$360,000 Rural Economic Development Grant through the United States Department of Agriculture. The proceeds were then loaned to the Hospital to cover the cost of specified equipment items. The note with the City is non-interest bearing, however, interest has been imputed at a rate of 5.25%, and recorded as a donation on the Hospital's financial statements. Monthly principal payments of \$4,286 are being made to the City through July, 2015. The note is collateralized by the equipment purchased (with a net book value of \$253,841).

The annual debt service on the notes is expected to require less than 37% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$445,000 and \$1,199,000 respectively.

Scheduled principal and interest payments on long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 364,901	\$ 21,522	\$ 386,423
2013	327,316	2,773	330,089
2014	51,429	--	51,429
2015	<u>51,427</u>	<u>--</u>	<u>51,427</u>
	<u>\$ 795,073</u>	<u>\$ 24,295</u>	<u>\$ 819,368</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

NOTE J - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Regular plan members are required to contribute 4.50% (5.38% July 1, 2011) of their annual salary and the Hospital is required to contribute 6.95% (8.07% July 1, 2011) of annual covered payroll. Contribution rates are slightly higher when employees are performing emergency response services. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were approximately \$202,500, \$181,800, and \$157,400, respectively, equal to the required contributions for each year.

NOTE K - AFFILIATED ORGANIZATION

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays Trinity a monthly fee. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Fees to Trinity for personnel and services	<u>\$ 288,345</u>	<u>\$ 220,641</u>

NOTE L - COMMITMENTS AND CONTINGENCIES

Rental Obligation

The Hospital has agreed to rent building space from the City of Pocahontas for approximately \$15,000 per year through 2014. This rented space is currently used for specialty clinic reception and for the home health/hospice offices.

Remodeling and Repair Projects

The Hospital has signed commitments for minor remodeling and roof repair projects with a total estimated cost of approximately \$67,000. The projects were started subsequent to year end.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Other Assets

The other assets represent funds advanced under agreements with healthcare professionals now practicing in the community. The agreements include commitments by the healthcare professionals to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the term of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Pocahontas Community Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Other Post Employment Benefits (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay a health insurance premium equal to that charged for current employees. There are 61 active employees and 1 retiree currently covered by the plan.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

Subsequent Events

The Hospital has evaluated all subsequent events through August 12, 2011, the date the financial statements were available to be issued.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget which is filed with the City Clerk to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2011 (Hospital only, excluding Foundation).

	<u>Total Per Hospital Statements</u>	<u>Budget</u>	<u>Amount Under Budget</u>
Expenses	<u>\$ 8,399,772</u>	<u>\$ 9,650,000</u>	<u>\$ 1,250,228</u>

* * *

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Balance Sheets
June 30, 2011

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Current Assets:			
Cash	\$ 914,175	\$ --	\$ 914,175
Patient receivables, net	1,278,709	--	1,278,709
Other receivables	21,986	--	21,986
Inventory	127,991	--	127,991
Prepaid expense	103,515	--	103,515
Internally designated assets	<u>367,441</u>	<u>--</u>	<u>367,441</u>
Total current assets	2,813,817	--	2,813,817
Designated and Restricted Assets:			
Internally designated assets	1,041,642	--	1,041,642
Restricted assets	--	112,242	112,242
Current portion	<u>(367,441)</u>	<u>--</u>	<u>(367,441)</u>
	674,201	112,242	786,443
Depreciable Capital Assets, Net	6,103,039	--	6,103,039
Non-depreciable Capital Assets	12,500	--	12,500
Other Assets	<u>56,786</u>	<u>--</u>	<u>56,786</u>
Total assets	<u>\$ 9,660,343</u>	<u>\$ 112,242</u>	<u>\$ 9,772,585</u>

LIABILITIES AND NET ASSETS

Current Liabilities:			
Current maturities of long-term debt	\$ 364,901	\$ --	\$ 364,901
Accounts payable	192,439	--	192,439
Accrued employee compensation	241,902	--	241,902
Other accrued expenses	36,530	--	36,530
Accrued interest	2,540	--	2,540
Estimated third-party payor settlement	<u>271,000</u>	<u>--</u>	<u>271,000</u>
Total current liabilities	1,109,312	--	1,109,312
Long-Term Debt, less current maturities	430,172	--	430,172
Net Assets:			
Invested in capital assets, net	5,320,466	--	5,320,466
Restricted - expendable	--	112,242	112,242
Unrestricted	<u>2,800,393</u>	<u>--</u>	<u>2,800,393</u>
Total liabilities and net assets	<u>\$ 9,660,343</u>	<u>\$ 112,242</u>	<u>\$ 9,772,585</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Balance Sheets
June 30, 2010

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Current Assets:			
Cash	\$ 1,500,591	\$ --	\$ 1,500,591
Patient receivables, net	1,172,387	--	1,172,387
Other receivables	23,318	--	23,318
Inventory	109,034	--	109,034
Prepaid expense	84,506	--	84,506
Internally designated assets	<u>586,663</u>	<u>--</u>	<u>586,663</u>
Total current assets	3,476,499	--	3,476,499
Designated and Restricted Assets:			
Internally designated assets	976,588	--	976,588
Restricted assets	--	93,588	93,588
Current portion	<u>(586,663)</u>	<u>--</u>	<u>(586,663)</u>
	389,925	93,588	483,513
Depreciable Capital Assets, Net	6,223,541	--	6,223,541
Non-depreciable Capital Assets	12,500	--	12,500
Other Assets	<u>84,395</u>	<u>--</u>	<u>84,395</u>
Total assets	<u>\$ 10,186,860</u>	<u>\$ 93,588</u>	<u>\$ 10,280,448</u>

LIABILITIES AND NET ASSETS

Current Liabilities:			
Current maturities of long-term debt	\$ 348,963	\$ --	\$ 348,963
Accounts payable	449,798	--	449,798
Accrued employee compensation	216,677	--	216,677
Other accrued expenses	32,230	--	32,230
Accrued interest	4,060	--	4,060
Estimated third-party payor settlement	<u>660,000</u>	<u>--</u>	<u>660,000</u>
Total current liabilities	1,711,728	--	1,711,728
Long-Term Debt, less current maturities	849,489	--	849,489
Net Assets:			
Invested in capital assets, net	4,799,889	--	4,799,889
Restricted - expendable	--	93,588	93,588
Unrestricted	<u>2,825,754</u>	<u>--</u>	<u>2,825,754</u>
Total liabilities and net assets	<u>\$ 10,186,860</u>	<u>\$ 93,588</u>	<u>\$ 10,280,448</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2011

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Revenue:				
Net patient service revenue	\$ 8,671,220	\$ --	\$ --	\$ 8,671,220
Other revenue	<u>107,048</u>	<u>--</u>	<u>--</u>	<u>107,048</u>
Total revenue	8,778,268	--	--	8,778,268
Expenses:				
Nursing service	2,343,415	--	--	2,343,415
Other professional service	2,930,808	--	--	2,930,808
General service	700,962	--	--	700,962
Fiscal and administrative service	1,760,696	125,313	(50,467)	1,835,542
Provision for depreciation	<u>611,766</u>	<u>--</u>	<u>--</u>	<u>611,766</u>
Total expenses	<u>8,347,647</u>	<u>125,313</u>	<u>(50,467)</u>	<u>8,422,493</u>
Operating Income (Loss)	430,621	(125,313)	50,467	355,775
Non-Operating Revenues (Expenses):				
Noncapital gifts, grants, and bequests	59,395	116,870	(20,132)	156,133
Investment income	16,903	681	--	17,584
Ambulance subsidy	7,202	--	--	7,202
Interest expense	(52,125)	--	--	(52,125)
Clinic operations, net	(2,769)	--	--	(2,769)
Gain on disposal of equipment	<u>5,654</u>	<u>--</u>	<u>--</u>	<u>5,654</u>
Non-operating revenues, net	<u>34,260</u>	<u>117,551</u>	<u>(20,132)</u>	<u>131,679</u>
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions	464,881	(7,762)	30,335	487,454
Restricted Revenue:				
Capital grants and contributions	<u>30,335</u>	<u>26,416</u>	<u>(30,335)</u>	<u>26,416</u>
Increase in Net Assets	495,216	18,654	--	513,870
Net Assets Beginning of Year	<u>7,625,643</u>	<u>93,588</u>	<u>--</u>	<u>7,719,231</u>
Net Assets End of Year	<u>\$ 8,120,859</u>	<u>\$ 112,242</u>	<u>\$ --</u>	<u>\$ 8,233,101</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2010

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Revenue:				
Net patient service revenue	\$ 7,779,141	\$ --	\$ --	\$ 7,779,141
Other revenue	<u>95,066</u>	<u>--</u>	<u>--</u>	<u>95,066</u>
Total revenue	7,874,207	--	--	7,874,207
Expenses:				
Nursing service	2,130,552	--	--	2,130,552
Other professional service	2,632,910	--	--	2,632,910
General service	623,384	--	--	623,384
Fiscal and administrative service	1,578,440	102,169	(50,670)	1,629,939
Provision for depreciation	<u>613,517</u>	<u>--</u>	<u>--</u>	<u>613,517</u>
Total expenses	<u>7,578,803</u>	<u>102,169</u>	<u>(50,670)</u>	<u>7,630,302</u>
Operating Income (Loss)	295,404	(102,169)	50,670	243,905
Non-Operating Revenues (Expenses):				
Noncapital gifts, grants, and bequests	87,014	82,221	(26,841)	142,394
Investment income	22,122	1,268	--	23,390
Ambulance subsidy	6,745	--	--	6,745
Interest expense	(71,316)	--	--	(71,316)
Clinic operations, net	(429)	--	--	(429)
Loss on disposal of equipment	<u>(5,200)</u>	<u>--</u>	<u>--</u>	<u>(5,200)</u>
Non-operating revenues, net	<u>38,936</u>	<u>83,489</u>	<u>(26,841)</u>	<u>95,584</u>
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions	334,340	(18,680)	23,829	339,489
Capital Grants and Contributions	<u>99,729</u>	<u>18,932</u>	<u>(23,829)</u>	<u>94,832</u>
Increase in Net Assets	434,069	252	--	434,321
Net Assets Beginning of Year	<u>7,191,574</u>	<u>93,336</u>	<u>--</u>	<u>7,284,910</u>
Net Assets End of Year	<u>\$ 7,625,643</u>	<u>\$ 93,588</u>	<u>\$ --</u>	<u>\$ 7,719,231</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,049,968	55.5%	\$ 952,276	59.1%
31 - 90	397,642	21.0	369,540	22.9
91 - 180	200,637	10.6	151,356	9.4
181 - 360	190,075	10.1	127,151	7.9
361 and over	52,387	2.8	12,064	0.7
	<u>1,890,709</u>	<u>100.0%</u>	<u>1,612,387</u>	<u>100.0%</u>
Allowance for doubtful accounts	200,000		140,000	
Allowance for contractual adjustments	<u>412,000</u>		<u>300,000</u>	
	<u>\$ 1,278,709</u>		<u>\$ 1,172,387</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Balance, beginning	\$ 140,000	\$ 130,000
Provision for bad debts	366,114	254,453
Recoveries of accounts previously written off	<u>255,123</u>	<u>214,882</u>
	761,237	599,335
Accounts written off	<u>561,237</u>	<u>459,335</u>
Balance, ending	<u>\$ 200,000</u>	<u>\$ 140,000</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Inventory/Prepaid Expense
June 30,

	<u>2011</u>	<u>2010</u>
<u>Inventory</u>		
Medical and surgical	\$ 26,397	\$ 29,801
Pharmacy	72,277	53,431
Laboratory and radiology	<u>29,317</u>	<u>25,802</u>
	<u>\$ 127,991</u>	<u>\$ 109,034</u>
 <u>Prepaid Expense</u>		
Insurance	\$ 40,822	\$ 34,297
Service contracts	<u>62,693</u>	<u>50,209</u>
	<u>\$ 103,515</u>	<u>\$ 84,506</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Service Revenue
Year ended June 30,

	2011		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing Bed</u>
Daily Patient Services:			
Medical and surgical	\$ 389,185	\$ --	\$ --
Swing bed	--	--	223,775
	<u>389,185</u>	<u>--</u>	<u>223,775</u>
Other Nursing Services:			
Operating and recovery rooms	27,673	1,093,091	748
Emergency service	7,346	476,027	--
Central services and supply	115,431	319,876	37,092
Intravenous therapy	688	10,502	125
Observation	--	99,195	--
	<u>151,138</u>	<u>1,998,691</u>	<u>37,965</u>
Other Professional Services:			
Emergency room physician	--	432,031	--
Anesthesiology	4,420	248,465	--
Laboratory	204,307	2,625,113	72,124
Radiology	98,300	1,864,261	19,586
Blood administration	35,648	50,175	8,579
Pharmacy	209,885	618,616	113,214
Chemotherapy	--	49,343	--
Electrocardiology	13,850	269,140	3,377
Physical therapy	9,978	321,844	54,660
Speech therapy	380	6,891	570
Occupational therapy	2,262	63,053	27,469
Cardiac rehabilitation	--	80,817	--
Ambulance services	4,476	348,292	--
Industrial Health	--	61,136	--
Home Health Care	--	153,971	--
Hospice	34,986	496,382	--
Clinic services	--	32,750	--
	<u>618,492</u>	<u>7,722,280</u>	<u>299,579</u>
	<u>\$ 1,158,815</u>	<u>\$ 9,720,971</u>	<u>\$ 561,319</u>

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>
<u>Total</u>	<u>Total</u>
\$ 389,185	\$ 357,781
223,775	221,525
<u>612,960</u>	<u>579,306</u>
1,121,512	885,350
483,373	381,683
472,399	511,661
11,315	52,201
99,195	107,420
<u>2,187,794</u>	<u>1,938,315</u>
432,031	387,702
252,885	187,305
2,901,544	2,503,817
1,982,147	1,866,832
94,402	77,585
941,715	757,179
49,343	33,730
286,367	247,590
386,482	348,717
7,841	2,686
92,784	77,378
80,817	91,790
352,768	333,523
61,136	67,111
153,971	140,874
531,368	348,078
32,750	27,913
<u>8,640,351</u>	<u>7,499,810</u>
<u>\$ 11,441,105</u>	<u>\$ 10,017,431</u>

POCAHONTAS COMMUNITY HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	<u>2011</u>	<u>2010</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 11,441,105	\$ 10,017,431
Contractual adjustments	(2,389,449)	(1,930,385)
Provision for bad debts	(366,114)	(254,453)
Charity care	(7,375)	(43,759)
Employee discounts	(6,947)	(9,693)
	<u>\$ 8,671,220</u>	<u>\$ 7,779,141</u>
 <u>Other Revenue</u>		
Meals sold	\$ 18,638	\$ 15,989
Histories	1,692	2,274
Lifeline	21,160	17,809
Ambulance support	18,000	18,000
Rent income	13,575	12,675
Miscellaneous	33,623	28,319
Sale of x-ray film	360	--
	<u>\$ 107,048</u>	<u>\$ 95,066</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Expenses
Year ended June 30,

	2011		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing administration	\$ 725	\$ 150	\$ 349
Medical and surgical	792,543	--	124,390
	<u>793,268</u>	<u>150</u>	<u>124,739</u>
<u>Other Nursing Services</u>			
Operating and recovery rooms	203,201	--	88,125
Central services and supply	26,730	--	155,557
Emergency service	115,667	--	33,183
	<u>345,598</u>	<u>--</u>	<u>276,865</u>
<u>Other Professional Services</u>			
Laboratory	259,754	585	262,234
Blood administration	--	--	30,539
Electrocardiology	--	--	--
Radiology	204,865	--	339,225
Cardiac rehabilitation	88,765	--	5,362
Pharmacy	67	--	326,144
Chemotherapy	7,176	--	8,093
Anesthesiology	--	--	1,221
Ambulance services	151,042	--	52,958
Physical therapy	26,861	--	3,861
Speech therapy	--	--	--
Occupational therapy	--	--	1,050
Industrial Health	35,043	--	1,939
Home Health Care	168,012	--	49,069
Medical records	89,012	--	37,316
Hospice	118,263	--	129,298
	<u>1,148,860</u>	<u>585</u>	<u>1,248,309</u>
<u>General Services</u>			
Dietary	114,657	--	83,608
Plant operations	127,399	--	241,956
Housekeeping	70,234	--	13,602
Laundry and linen	--	--	34,040
	<u>312,290</u>	<u>--</u>	<u>373,206</u>
<u>Fiscal and Administrative Services</u>	285,172	840,187	369,594
<u>Provision for Depreciation</u>	--	--	611,766
Total all departments	<u>\$ 2,885,188</u>	<u>\$ 840,922</u>	<u>\$ 3,004,479</u>

See Independent Auditor's Report.

2011					
Professional Fees	Total	2010 Total			
\$ --	\$ 1,224	\$ 28,761			
--	916,933	827,107			
--	918,157	855,868			
43,581	334,907	220,111			
--	182,287	165,543			
759,214	908,064	889,030			
802,795	1,425,258	1,274,684			
15,865	538,438	499,896			
--	30,539	27,465			
18,280	18,280	18,087			
49,662	593,752	590,239			
--	94,127	100,103			
73,105	399,316	311,218			
--	15,269	16,952			
121,125	122,346	89,367			
--	204,000	151,391			
195,540	226,262	204,369			
2,694	2,694	1,306			
56,783	57,833	46,569			
--	36,982	46,652			
--	217,081	215,944			
--	126,328	115,931			
--	247,561	197,421			
533,054	2,930,808	2,632,910			
15,466	213,731	196,164			
--	369,355	313,437			
--	83,836	85,891			
--	34,040	27,892			
15,466	700,962	623,384			
265,743	1,760,696	1,578,440			
--	611,766	613,517			
<u>\$ 1,617,058</u>	<u>\$ 8,347,647</u>	<u>\$ 7,578,803</u>			

POCAHONTAS COMMUNITY HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Fiscal and Administrative:		
Salaries and wages	\$ 285,172	\$ 249,414
Professional fees	265,743	253,012
Recruitment fees	51,119	37,047
Dues	9,824	27,438
Telephone	13,744	13,765
Supplies and other expense	<u>152,876</u>	<u>123,229</u>
	778,478	703,905
Employee Welfare:		
Payroll taxes	420,276	381,432
Group health insurance	383,090	336,467
Other employee benefits	<u>36,821</u>	<u>40,675</u>
	840,187	758,574
Insurance:		
Liability and property insurance	67,185	64,462
Foundation Expenditures:		
Supplies and other expense	<u>74,846</u>	<u>51,499</u>
	<u>\$ 1,760,696</u>	<u>\$ 1,578,440</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Acute Care:					
Admissions	220	219	185	196	204
Discharges	220	219	185	203	203
Patient Days	631	659	548	644	598
Average Length of Stay	2.9	3.0	3.0	3.2	2.9
Average Occupied Beds	1.7	1.8	1.5	1.8	1.6
Swing Bed:					
Admissions	87	105	77	77	73
Discharges	89	105	77	83	67
SNF Days	601	658	543	522	528
ICF Days	129	67	162	43	76
Combined Average Occupied Beds	3.7	3.8	3.4	3.3	3.3
Outpatient Occasions of Service	32,064	30,296	31,572	33,651	32,302
Home Healthcare Visits	2,058	2,153	2,281	2,595	2,705

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Consolidated Balance Sheets
June 30,

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash	\$ 914,175	\$ 1,500,591
Receivables	1,300,695	1,195,705
Inventory	127,991	109,034
Prepaid expense	103,515	84,506
Internally designated assets	<u>367,441</u>	<u>586,663</u>
Total current assets	2,813,817	3,476,499
Other Assets:		
Designated and restricted assets, net	786,443	483,513
Capital assets, net	6,115,539	6,236,041
Other assets	<u>56,786</u>	<u>84,395</u>
	<u>6,958,768</u>	<u>6,803,949</u>
Total assets	<u>\$ 9,772,585</u>	<u>\$ 10,280,448</u>
Current Liabilities:		
Current maturities	\$ 364,901	\$ 348,963
Accounts payable	192,439	449,798
Accrued expenses	278,432	248,907
Accrued interest	2,540	4,060
Estimated third party payor settlements	<u>271,000</u>	<u>660,000</u>
Total current liabilities	1,109,312	1,711,728
Long-Term Debt, Net	<u>430,172</u>	<u>849,489</u>
Total liabilities	1,539,484	2,561,217
Net Assets	<u>8,233,101</u>	<u>7,719,231</u>
Total liabilities and net assets	<u>\$ 9,772,585</u>	<u>\$ 10,280,448</u>

See Independent Auditor's Report.

<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 728,994	\$ 598,207	\$ 706,258
909,006	861,216	819,531
102,639	98,748	101,986
89,673	72,410	81,215
<u>333,821</u>	<u>330,274</u>	<u>258,070</u>
2,164,133	1,960,855	1,967,060
644,493	591,982	336,734
6,355,746	6,843,888	7,060,697
92,088	--	--
<u>7,092,327</u>	<u>7,435,870</u>	<u>7,397,431</u>
<u>\$ 9,256,460</u>	<u>\$ 9,396,725</u>	<u>\$ 9,364,491</u>
\$ 333,821	\$ 319,256	\$ 258,070
202,229	200,802	298,668
211,967	166,700	180,281
5,630	6,212	6,832
<u>20,000</u>	<u>100,000</u>	<u>100,000</u>
773,647	792,970	843,851
<u>1,197,903</u>	<u>1,532,723</u>	<u>1,491,981</u>
1,971,550	2,325,693	2,335,832
<u>7,284,910</u>	<u>7,071,032</u>	<u>7,028,659</u>
<u>\$ 9,256,460</u>	<u>\$ 9,396,725</u>	<u>\$ 9,364,491</u>

POCAHONTAS COMMUNITY HOSPITAL
Comparative Consolidated Statements of Revenues and Expenses
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Patient Service Revenue	\$ 11,441,105	\$ 10,017,431
Adjustments to Patient Service Revenue	<u>(2,769,885)</u>	<u>(2,238,290)</u>
Net Patient Service Revenue	8,671,220	7,779,141
Other Revenue	<u>107,048</u>	<u>95,066</u>
Total Revenue	8,778,268	7,874,207
Expenses	<u>8,422,493</u>	<u>7,630,302</u>
Operating Income (Loss)	355,775	243,905
Non-Operating Revenues, Net	<u>131,679</u>	<u>95,584</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	487,454	339,489
Capital Grants and Contributions	<u>26,416</u>	<u>94,832</u>
Increase in Net Assets	<u>\$ 513,870</u>	<u>\$ 434,321</u>

See Independent Auditor's Report.

<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 9,064,262	\$ 8,629,332	\$ 7,891,776
<u>(1,869,725)</u>	<u>(2,108,004)</u>	<u>(1,654,603)</u>
7,194,537	6,521,328	6,237,173
<u>84,079</u>	<u>91,171</u>	<u>77,680</u>
7,278,616	6,612,499	6,314,853
<u>7,192,450</u>	<u>6,662,583</u>	<u>6,268,021</u>
86,166	(50,084)	46,832
<u>113,256</u>	<u>66,851</u>	<u>14,113</u>
199,422	16,767	60,945
<u>14,456</u>	<u>25,606</u>	<u>12,579</u>
<u>\$ 213,878</u>	<u>\$ 42,373</u>	<u>\$ 73,524</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees of
Pocahontas Community Hospital
Pocahontas, Iowa

We have audited the consolidated financial statements of Pocahontas Community Hospital as of and for the year ended June 30, 2011, and have issued our report thereon dated August 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pocahontas Community Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Pocahontas Community Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees of
Pocahontas Community Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 11-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pocahontas Community Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the consolidated financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pocahontas Community Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Pocahontas Community Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewald, Bell, Kuhlman & Co. P. C.

Atlantic, Iowa
August 12, 2011

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings
Year ended June 30, 2011

PART I - SIGNIFICANT DEFICIENCIES

11-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings - Continued
Year ended June 30, 2011

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

11-II-A Certified Budget: As a component unit of the City of Pocahontas, the Hospital is required to annually (in February) provide a copy of its summary budget to the City, to allow its inclusion in the official City budget documents. The Hospital complied with its requirement and provided a copy of its budget to the City by February, 2011.

Recommendation: We recommend that the Hospital continue to file its summary budget with the City of Pocahontas by February and retain documentation that it has done so.

Response: We will continue to meet our obligation of filing our original budget with the City in future years.

Conclusion: Response accepted.

11-II-B Questionable Expenditures: During the audit, we noted certain expenditures approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expenditures were as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Halderwood Farms	Employee Recognition Dinner	\$ 2,501
Home Plate	Employee Recognition Dinner	178

According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation: We recommend that the Board continue to document the public purpose of expenditures for employee recognition dinners before authorization is given.

Response: The recognition dinner expenditures are considered part of the employee benefit package and the Board feels they meet the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

11-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings - Continued
Year ended June 30, 2011

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING -
Continued

11-II-D Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Pocahontas Ford	Miscellaneous repairs	\$ 1,154
Gustave Holzmueller is the owner of the business, a City Council Member, and the husband of Bev Holzmueller, a Hospital Board member	Pick-up Truck	<u>22,281</u>
	Total	<u>\$ 23,435</u>

The total of \$23,435 of transactions with Pocahontas Ford exceeds \$2,500. A bid process should have been used in acquiring the pick-up, to avoid any appearance of a conflict of interest. However, Pocahontas Ford is the only new automobile dealer in the county and the Board of Trustees determined that purchasing locally was the best decision for the Hospital's overall operation.

Recommendation: We recommend that in the future, the Hospital obtain bids before purchasing a vehicle from a business owned by a board member or their spouse.

Response: Pocahontas Ford is the only dealer selling new vehicles in Pocahontas County. After reviewing the price, and using knowledge of the price of similar vehicles, the Board determined that the cost of this vehicle was appropriate, and decided to make the purchase. Bev Holzmueller abstained from voting on the issue.

Conclusion: Response accepted.

11-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

11-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings - Continued
Year ended June 30, 2011

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING -
Continued

11-II-G Economic Development: During the year ended June 30, 2011, the Hospital paid \$500 to the Pocahontas County Economic Development Commission. The Hospital Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

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